

RURAL HOUSING DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

RURAL HOUSING DEVELOPMENT CORPORATION
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A PROFESSIONAL CORPORATION

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Independent Auditor's Report

Rural Housing Development Corporation
Provo, UT

November 23, 2005

We have audited the accompanying statements of financial position of Rural Housing Development Corporation (a non-profit organization) as of September 30, 2005 and 2004, and the related statements of activities and statement of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Housing Development Corporation as of September 30, 2005 and 2004 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 23, 2005, on our consideration of Rural Housing Development Corporation's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Rural Housing Development Corporation taken as a whole. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Gilbert & Stewart

GILBERT & STEWART
Certified Public Accountants

RURAL HOUSING DEVELOPMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30

ASSETS

	2005	2004
Current Assets		
Cash	\$ 104,148	\$ 243,945
Cash - Restricted	558,473	821,494
Accounts Receivable	60,090	36,886
Prepaid Expenses	6,976	5,982
Land for Resale	1,997,326	481,834
Total Current Assets	<u>2,727,013</u>	<u>1,590,141</u>
Fixed Assets		
Property and Equipment - Net	<u>361,379</u>	<u>69,116</u>
Other Assets		
Loans Receivable	37,500	
Multi-Housing Plan Costs	28,730	28,730
Utility Deposit	350	
Deposit on Land		3,500
Total Other Assets	<u>66,580</u>	<u>32,230</u>
Total Assets	<u>\$ 3,154,972</u>	<u>\$ 1,691,487</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	\$ 34	\$ 621
Accrued Payroll Liabilities	7,061	6,505
Accrued Compensated Absences	15,087	9,869
Deferred Revenue	42,662	110,086
Loans Payable	844,168	315,011
Note Payable - Current Portion	3,293	
Trust Fund Liability	405,794	275,282
Funds Held for Others	1,190	
Total Current Liabilities	<u>1,319,289</u>	<u>717,374</u>
Long-Term Liabilities		
Note Payable - Bank of American Fork	146,845	
Payable to UVCCC	28,730	28,730
Payable to Housing Assistance Council	1,284,175	742,013
Total Long-Term Liabilities	<u>1,459,750</u>	<u>770,743</u>
Total Liabilities	<u>2,779,039</u>	<u>1,488,117</u>
Net Assets		
Temporarily Restricted	40,741	44,529
Unrestricted	335,192	158,841
Total Net Assets	<u>375,933</u>	<u>203,370</u>
Total Liabilities & Net Assets	<u>\$ 3,154,972</u>	<u>\$ 1,691,487</u>

See accompanying notes.

RURAL HOUSING DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES YEARS ENDED SEPTEMBER 30

	<u>2005</u>	<u>2004</u>
Unrestricted Net Assets		
Support and Revenues		
Grant Revenue	\$ 669,278	\$ 538,418
Rental Revenue	9,136	
Other Revenue	35,443	63,422
Assets Released from Restrictions	41,690	
Total Support	<u>755,547</u>	<u>601,840</u>
Expenses		
Payroll, Taxes, and Benefits	388,392	323,036
Office and Supplies	39,211	28,738
Insurance	11,796	7,925
Depreciation	17,529	10,402
Professional	8,007	4,889
Rent	5,207	10,654
Travel and Training	16,620	12,377
Interest	7,556	
Other	14,783	8,150
Home Buyer Land Subsidy	70,095	112,364
Total Expenses	<u>579,196</u>	<u>518,535</u>
Increase in Unrestricted Net Assets	<u>176,351</u>	<u>83,305</u>
Temporarily Restricted Net Assets		
Support and Revenues		
Grant and Donation Revenue	36,480	41,750
Interest Revenue	1,422	2,779
Assets Released from restrictions	(41,690)	
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(3,788)</u>	<u>44,529</u>
Total Increase in Net Assets	172,563	127,834
Net Assets - Beginning	<u>203,370</u>	<u>75,536</u>
Net Assets - Ending	<u>\$ 375,933</u>	<u>\$ 203,370</u>

See accompanying notes.

RURAL HOUSING DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS

YEARS ENDED SEPTEMBER 30

	2005	2004
Cash Flows from Operating Activities:		
Increase in Total Net Assets	\$ 172,563	\$ 127,834
Adjustments to Reconcile Increase in Net Assets		
To Net Cash from Operating Activities:		
Depreciation	17,529	10,402
Loan Payable Forgiven		(30,000)
(Increase) Decrease in Accounts Receivable	(23,204)	(23,953)
(Increase) Decrease in Loans Receivable	(37,500)	17,084
(Increase) Decrease in Prepaid Expenses	(994)	3,162
(Increase) Decrease in Land for Resale	(1,515,492)	(372,864)
(Increase) Decrease in Deposits	3,150	
Increase (Decrease) in Accrued Liabilities	5,187	(2,302)
Increase (Decrease) in Funds Held for Others	1,190	
Increase (Decrease) in Deferred Revenue	(67,424)	(18,289)
Net Cash Provided (Used) by Operating Activities	<u>(1,444,995)</u>	<u>(288,926)</u>
Cash Flows from Investing Activities:		
Purchase of Equipment	(7,092)	(36,510)
Purchase of Office Building	<u>(302,700)</u>	
Net Cash Provided (Used) by Investing Activities	<u>(309,792)</u>	<u>(36,510)</u>
Cash Flows from Financing Activities:		
Proceeds from Loan	1,324,266	1,147,956
Increase in Trust Fund Liability	130,512	
Decrease of Trust Fund Liability		(37,701)
Payments on Loans	<u>(102,809)</u>	<u>(497,699)</u>
Net Cash Provided by Financing Activities	<u>1,351,969</u>	<u>612,556</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(402,818)	287,120
Cash and Cash Equivalents - Beginning	<u>1,065,439</u>	<u>778,319</u>
Cash and Cash Equivalents - Ending	<u>\$ 662,621</u>	<u>\$ 1,065,439</u>
Supplementary Information		
Interest Paid	\$ 7,556	0
Taxes Paid	0	0

See accompanying notes.

RURAL HOUSING DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization, Nature of Activities and Income Tax

Status

Rural Housing Development Corporation (the Company) is a non-profit professional organization established for the purpose of assisting low income families into affordable housing. The housing is currently located in Central Utah. The Company relies on support from government grants and loans and private resources. The Company is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. The Company is classified as other than a private foundation.

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Company and changes therein are classified and reported when applicable as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Company and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Company. Generally, the donors of these assets permit the Company to all or part of the income earned on any related investments for general or specific purposes.

The Company shows restricted contributions and support whose restrictions are met in the same reporting period as unrestricted support.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make assumptions and estimates that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RURAL HOUSING DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents.

Rental Revenue

Part of the office building is rented to another entity until that space can be utilized by the Company.

Restricted Cash

Restricted cash is cash from government grants or loans that are restricted for land purchases or other grant requirements.

Accounts Receivable

Accounts receivable are amounts due principally from grant reimbursements for expenses paid by the Company.

Loans Receivable

Loans receivable are amounts advanced to homebuyers for construction loan assistance. The balances will be repaid upon the sale, refinancing, or payoff of the homes.

Contingent Loans Receivable

Amounts are given to homebuyers to assist them with closing or down payment costs. The funds do not have to be repaid unless the home is sold or refinanced within a certain time period. No receivable amounts are reflected in the statement of financial position for these contingent loans.

Property, Equipment and Depreciation

Property and equipment are recorded at cost or at estimated fair value at the date of gift. Amounts in excess of \$2,000 are capitalized as property and equipment. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Property and equipment are depreciated using the straight-line method over estimated useful lives of 5 - 10 years.

Deferred Revenue

Revenues received in advance of services performed are reported as a current liability. Included in deferred revenue are grant monies received but not yet expended of \$42,662 at September 30, 2005 and \$110,086 at September 30, 2004.

RURAL HOUSING DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 2 - PROPERTY AND EQUIPMENT

As of September 30th, property and equipment consist of:

	<u>2005</u>	<u>2004</u>
Office Building	\$302,700	\$ 0
Transportation Equipment	40,322	35,377
Office Equipment	13,639	11,492
Power or Specialty Tools	46,544	46,544
Less: Accumulated Depreciation	(41,826)	(24,297)
	<u>\$ 361,379</u>	<u>\$69,116</u>

NOTE 3 - ECONOMIC DEPENDENCY AND CONCENTRATIONS OF RISK

Substantially all of the revenues received by the Company come from government grants. Many programs operated by the Company depend upon continued funding by these government agencies. During the year, the cash balance exceeded the FDIC Insurance limit by \$431,076.

Trust Funds

The checking accounts for the self-help participants and also the Spring Lake apartments are shown in the balance sheet as restricted cash offset by the trust fund liability. Rural Housing Development Corporation is an owner of these accounts and has signature responsibility for them.

NOTE 4 - DEFINED CONTRIBUTION PLAN

The Company has a 403(b) retirement plan in which employees can contribute up to 5.5% to the plan and the employer will contribute 17.5% of the employees' compensation. The employer's matching contribution for retirement expense was \$49,526 and \$40,418 for the fiscal years ended September 30, 2005 and 2004, respectively.

NOTE 5 - HOME BUYER LAND SUBSIDY

As part of the normal operations of the Company, land is purchased and then sold to low-income families. The benefits are 0% interest loans that lower monthly mortgage payments to assist low-income families in purchasing a home. In many cases, these loans can also be forgiven. These subsidized loans for lots and closing cost assistance are covered by grants received from the State and Federal government. These subsidies are \$70,095 and \$112,364 during the years ended September 30, 2005 and 2004.

The Company has a secured interest in these properties until the buyers meet a holding period requirement. If the properties are sold within 5, 10, 15 years or the life of the loan, a certain amount of the proceeds will be returned to Rural Housing Development Corporation.

RURAL HOUSING DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 6 - LOANS PAYABLE

	September 30, <u>2005</u>	September 30, <u>2004</u>
Shop loans from Housing Assistance Council are potentially forgivable by HAC - interest rate 0%. These loans have no repayment terms.		
1. Interest received on cash held	\$ 3,960	\$ 0
2. #4-314-0002	75,000	75,000
3. #4-412-0011	267,498	267,498
4. #4-503-0112	90,000	90,000
5. #4-610-0211	196,212	196,212
6. #4-715-0312	282,505	113,303
7. #4-805-0503	369,000	0
Loan payable to Utah Valley Consortium of Cities and County – proceeds used to buy land for new homes or for future subsidies to homebuyers. Repayment due at time of closing of new homes at 0% interest.		
	844,168	315,011
Loan payable to Utah Valley Consortium of Cities and County – proceeds reimbursed architect and other costs of a multi-family project which was discontinued. Payment is due when these multi-housing plans are used in a future project. Interest rate is 0%.		
	28,730	28,730
Note payable to Bank of American Fork at 7% interest and monthly payments of \$1,139.79 for 59 months. The original note calls for a balloon payment of \$147,021.47 at the end of that period. The office building is collateral for this note. The original note of \$159,700 is dated January 11, 2005. RHDC intends to pay an extra \$1,000 per month for the life of the loan, substantially reducing the above balloon payment.		
	150,138	0
Irrevocable letter of credit from Bank of American Fork – the amount is \$427,410.42 for a bond to Payson City for improvements to the MeadowBrook Subdivision until April 12, 2007.		
	0	0
RHDC signed contract #051784 with Utah State Dept. of Community and Economic Development on December 30, 2004 in the amount of \$200,000. This is for loans up to \$40,000 each to eligible new home buyers. The State makes the loans and collects the payments from the home buyers. RHDC does not consider these loans to be obligations of the company. The amount of this \$200,000 loaned by the state to the families by the end of the year is \$170,000.		
Total	<u>0</u> <u>\$2,307,211</u>	<u>0</u> <u>\$1,085,754</u>

RURAL HOUSING DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 6 - LOANS PAYABLE (Continued)

Aggregate maturities of debt for periods ending September 30:

	<u>Amount</u>	<u>Interest</u>
2006	\$847,461	\$ 10,384
2007	3,531	10,146
2008	3,787	9,891
2009	4,060	9,616
2010	135,467	2,359
Unknown	<u>1,312,905</u>	<u>0</u>
Totals	<u>\$2,307,211</u>	<u>\$ 42,396</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Net assets are temporarily restricted for:	<u>9/30/05</u>	<u>9/30/04</u>
Administration or financial assistance to low-income home buyers	<u>\$40,741</u>	<u>\$44,529</u>

REPORT AND SCHEDULES REQUIRED BY:

**THE SINGLE AUDIT ACT
GOVERNMENT AUDITING STANDARDS**

RURAL HOUSING DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2005

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Thru Grantor's Number	Disbursements or Expenditures
<u>U.S. Department of Agriculture</u>			
Rural Self-Help Housing Technical Assistance	10.420		\$ 405,890
Total U.S. Department of Agriculture			<u>405,890</u>
<u>U.S. Department of Housing & Urban Development</u>			
Rural Housing and Economic Development Project Grant	14.250		150,000
<i>Passed Through Housing Assistance Council</i>			
Self-Help Home Ownership Program - Loan - Shop 04	14.247		390,000
Self-Help Home Ownership Program - Loan - Shop 03	14.247		181,010
Self-Help Home Ownership Program - Interest Earned	14.247		3,960
<i>Passed Through Utah Valley Consortium of Cities and County</i>			
HOME Investment Partnership Program - Loan	14.239		589,596
HOME Investment Partnership Program - Grant	14.239		15,000
HOME Investment Partnership Program - Grant	14.239		5,778
<i>Passed Through Utah State Division of Community Development</i>			
HOME Investment Partnership Program - Loan	14.239	051784	170,000
HOME Investment Partnership Program - Grant	14.239	051991	36,012
HOME Investment Partnership Program - Grant	14.239	051329	15,900
Total U.S. Dept. of Housing & Urban Development			<u>1,557,256</u>
Total Expenditures of Federal Awards			<u>\$ 1,963,146</u>

See accompanying notes.

RURAL HOUSING DEVELOPMENT CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of activities related to the Company's expenditure of Federal awards. The schedule has been prepared on the same basis as the financial statements. Most of the awards are reimbursement based. Therefore, as expenditures of Federal funds are made, revenue is recognized.

NOTE B - DEFERRED REVENUE

The financial statements include deferred revenue from Federal programs. This deferred revenue is accrued using the same basis as the financial statements. The deferred revenue reflects Federal awards that have been received by year end and not yet expended.

NOTE C - LOAN BALANCES

Outstanding Federal loan balances at year end are:

SHOP Funds

Interest Earned on SHOP Funds	\$ 3,960
#4-314-0002	75,000
#4-412-0011	267,498
#4-503-0112	90,000
#4-610-0211	196,212
#4-715-0312	282,505
#4-805-0503	369,000

HOME Funds

UVCCC	28,730
UVCCC	844,168

RURAL HOUSING DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Rural Housing Development Corporation.
2. No reportable conditions were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Rural Housing Development Corporation were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for Rural Housing Development Corporation expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for Rural Housing Development Corporation are reported in Part C. of this schedule.
7. The program tested as a major program was HOME Investment Partnership Program 14.239.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Rural Housing Development Corporation was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR AWARD PROGRAMS

None

D. FINDINGS - PRIOR YEAR

None

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**Report on Internal Control Over Financial
Reporting and on Compliance and on Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

Rural Housing Development Corporation
Provo, UT

November 23, 2005

We have audited the financial statements of Rural Housing Development Corporation, (a nonprofit organization) as of and for the year ended September 30, 2005, and have issued our report thereon dated November 23, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

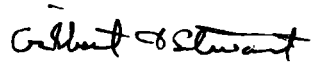
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rural Housing Development Corporation's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Housing Development Corporation's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


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**Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

Rural Housing Development Corporation
Provo, UT

November 23, 2005

Compliance

We have audited the compliance of Rural Housing Development Corporation with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended September 30, 2005. Rural Housing Development Corporation's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Rural Housing Development Corporation's management. Our responsibility is to express an opinion on Rural Housing Development Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Rural Housing Development Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Rural Housing Development Corporation's compliance with those requirements.

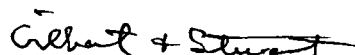
In our opinion, Rural Housing Development Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of Rural Housing Development Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Rural Housing Development Corporation's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART
Certified Public Accountants